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MONETARY POLICY AND ECONOMY OF INDIA

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ABSTRACT

The Atmanirbhar Bharat scheme, meaning Self-Reliant India, aims to make Indians self-sufficient by relying on locally-made products instead of imports. This scheme includes a Rs 20 lakh crore package, equivalent to 10% of India's GDP, that will be implemented in five phases. Monetary policy planning has also been initiated to regulate and control the supply of currency and credit, with the government and the central bank taking measures to study and improve India's economy. The ultimate goal of Atmanirbhar India is to make its people self-reliant in every way possible.

The purpose of this research paper is to study the impact of monetary policy on the economy in the Atmanirbhar and Developed India campaigns. In the presented research paper, secondary data has been collected for the study which has been done based on various magazines, newspapers, economic survey reports and reports presented by the Central Bank of India RBI. To achieve the goal of self-reliance and development in India, monetary policy alone is not enough but coordination of fiscal policy is very important. If both the Central Bank of India and the government decide their policies together, then India can move rapidly towards development.

KEYWORDS: Atmanirbhar Bharat, Monetary Reforms, GDP, Economic Development Price Stability, Sustainable Growth, Fiscal Policy.

INTRODUCTION

On November 15, 2023, the "Self-reliant and Developed India Campaign 2047" was launched to commemorate the birthday of a tribal freedom fighter. The campaign is also known as the "Atmanirbhar India Campaign" and provides a stimulus package of Rs 20 lakh crore (approximately $270 billion USD) to various sectors. This package is intended to provide economic relief to those affected by the COVID-19 pandemic. The campaign aims to promote the use of local goods instead of imported ones. According to reports, the stimulus package amounts to 10% of India's GDP. The Atmanirbhar India Campaign will be implemented in five phases. Features: Increase in allocation for MNREGA by Rs 40,000 crore. Employment among the people increases and work also increases. Second, increasing the rate of investment in public health and other health reforms to prepare the people of India for future pandemics. Third, technology-driven education with general under The Atmanirbhar Bharat campaign in India. Fourth, repealing the Companies Act in the countries

The meaning of self-reliance was clarified by the Minister, stating that the Atmanirbhar Mission, in memory of the Atmanirbhar India Campaign, does not imply isolation from the rest of the world. Instead, it focuses on self-sufficiency and innovation. The Atmanirbhar India Campaign was launched to implement long-term reforms in the development sector with the aim of making India competitive and attractive at the global level.

Monetary Policy of India

Monetary policy has become an essential tool for both Atmanirbhar and developed India. It has been considered a vital instrument since the beginning of the planning process. Monetary policy refers to the measures implemented by the Central Bank to regulate and control the supply of money and credit, aiming to achieve specific objectives. In India, monetary policy is implemented in the context of a mixed economy with two objectives in mind. Firstly, the introduction of five-year plans in India aimed to increase economic growth and price stability, making it necessary to adapt the monetary policy to suit the needs of planned development.

Several direct and indirect instruments are used for implementing monetary policy.

- **Repo Rate:** The interest rate at which the Reserve Bank provides liquidity under the liquidity adjustment facility (LAF) to all LAF participants against the collateral of government and other approved securities.
- **Standing Deposit Facility (SDF) Rate:** The rate at which the Reserve Bank accepts uncollateralized deposits, on an overnight basis, from all LAF participants. The SDF is also a financial stability tool in addition to its role in liquidity management. The SDF rate is placed at 25 basis points below the policy repo rate. With the introduction of SDF in April 2022, the SDF rate replaced the fixed reverse repo rate as the floor of the LAF corridor.
- **Marginal Standing Facility (MSF) Rate:** The penal rate

at which banks can borrow, on an overnight basis, from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a predefined limit (2 percent). This provides a safety valve against unanticipated liquidity shocks to the banking system. The MSF rate is placed at 25 basis points above the policy repo rate.

- **Liquidity Adjustment Facility (LAF):** The LAF refers to the Reserve Bank's operations through which it injects/absorbs liquidity into/from the banking system. It consists of overnight as well as term repo/reverse repos (fixed as well as variable rates), SDF and MSF. Apart from LAF, instruments of liquidity management include outright open market operations (OMOs), forex swaps and market stabilization scheme (MSS).
- **LAF Corridor:** The LAF corridor has the marginal standing facility (MSF) rate as its upper bound (ceiling) and the standing deposit facility (SDF) rate as the lower bound (floor), with the policy repo rate in the middle of the corridor.
- **Main Liquidity Management Tool:** A 14-day term repo/reverse repo auction operation at a variable rate conducted to coincide with the cash reserve ratio (CRR) maintenance cycle is the main liquidity management tool for managing frictional liquidity requirements.
- **Fine Tuning Operations:** The main liquidity operation is supported by fine-tuning operations, overnight and/or longer tenor, to tide over any unanticipated liquidity changes during the reserve maintenance period. In addition, the Reserve Bank conducts, if needed, longer-term variable rate repo/reverse repo auctions of more than 14 days.
- **Reverse Repo Rate:** The interest rate at which the Reserve Bank absorbs liquidity from banks against the collateral of eligible government securities under the LAF. Following the introduction of SDF, the fixed rate reverse repo operations will be at the discretion of the RBI for purposes specified from time to time.
- **Bank Rate:** The rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate acts as the penal rate charged on banks for shortfalls in meeting their reserve requirements (cash reserve ratio and statutory liquidity ratio). The Bank Rate is published under Section 49 of the RBI Act, 1934. This rate has been aligned with the MSF rate and, changes automatically as and when the MSF rate changes alongside policy repo rate changes.
- **Cash Reserve Ratio (CRR):** The average daily balance that a bank is required to maintain with the Reserve Bank as a per cent of its net demand and time liabilities (NDTL) as on the last Friday of the second preceding fortnight that the Reserve Bank may notify from time to time in the Official Gazette.
- **Statutory Liquidity Ratio (SLR):** Every bank shall maintain in India assets, the value of which shall not be less than such percentage of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight, as the Reserve Bank may, by notification in the Official Gazette, specify from time to time and such assets shall be maintained as may be specified in such notification (typically in unencumbered government securities, cash and gold).
- **Open Market Operations (OMOs):** These include outright purchase/sale of government securities by the Reserve Bank for injection/absorption of durable liquidity in the banking system.

REVIEW OF LITERATURE

1. As stated by Alam Aftab Monetary policy has become more and more significant every year. Its function is crucial to achieving monetary goals, particularly in controlling price stability and fostering economic expansion. In addition, over time, the significance and application of monetary weapons such as the bank rate, CRR, SLR, repo rate, and reverse rates have grown. In recent years, the most often utilized monetary approaches have been repo and reverse repo rates. The primary goals of varying the rates are to reduce inflation, absorb surplus liquidity, and preserve price stability in the economy. Therefore, compared to other long-term development goals, price stability is a more successful short-term goal for the Indian economy.
2. Sudip According to research by Deb Kumar Chatterji and Dr. Vishal Sood (2020), implementing a strict monetary policy to manage inflation is not without its drawbacks. First, there's a chance that the RBI's increase in short-term interest rates won't really result in bank loan restrictions due to a weak monetary transmission mechanism. This may occur when banks raise lending rates because they are not adhering to a strict monetary policy and instead have excess liquidity, or cash reserves, on hand. Consequently, banks will not be able to limit their credit supply. The demand for credit may not be much impacted by increased offering rates if the economy is experiencing prosperity and there is a significant demand for goods overall.
3. Debkuumar study that monetary policy helps in the development of undersized countries by monitoring price fluctuations and general economic activities. This is done by making proper alterations between the demand for money and the supply of money. As the economy develops, there is the continuous increase in requests for money.
4. L. Madhu, M Archana (2023) found that All the many elements that affect the health of the Indian economy are combined to form India's GDP. The GDP of India gives us a comprehensive assessment on the performance of the Indian economy. The "Cost Factor" or "Real Price" techniques are the two methods for calculating the Indian GDP. The main cause of India's GDP development following and up until the 1990s was the economy's opening up. Markets were opened up, and the government used private capital as leverage. More money has since flooded the markets. Monetary policy laws can be either active or passive. The passive rule, which maintains a constant flow of capital, is similar to Milton Friedman's money growth rule. The second, referred to as the rule of price stability, is that in reaction to increases in overall supply or demand, the money supply should be adjusted to keep prices steady. The idea of active regulation is to keep inflation and the price level under control. Our monetary policy is dominated by this Indian law. Healthy advancement is a stable development.

5. Manmohan Agarwal Said that India started experimenting with different frameworks for monetary policy once it became clear that monetization of the budget deficit had a significant influence on the rate of inflation. It has finally settled on inflation targeting.

Objective
1. The objective of the presented paper is to analyze the impact of monetary policy on the economy during the Atmanirbhar and Developed India campaign.
2. To study the coordination of monetary and fiscal policy.
3. To study the tools RBI used for price stability and development.
4. To study how monetary policy works.

Research Method
Secondary data will be used for the study in which analysis will be done through books, newspapers, magazines, general, economic, surveys, reports, the internet etc.

Analysis
Based on an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting (February 8, 2024) decided to:
- Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 percent.

Consequently, the standing deposit facility (SDF) rate remains unchanged at 6.25 percent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 percent.
- The MPC also decided to remain focused on the withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.

These decisions are in consonance with achieving the medium-term target for consumer price index (CPI) inflation of 4 percent within a band of +/- 2 percent, while supporting growth

Policy Repo Rate	**: 6.50%**
Standing Deposit Facility Rate	: 6.25%
Marginal Standing Facility Rate	: 6.75%
Bank Rate	: 6.75%
Fixed Reverse Repo Rate	: 3.35%
CRR	: 4.50%
SLR	: 18.00%
Base Rate	: 9.10% - 10.25%
MCLR (Overnight)	: 8.00% - 8.60%
Savings Deposit Rate	: 2.70% - 3.00%
Term Deposit Rate > 1 Year	: 6.50% - 7.25%

Money Market	
Call Rates	: 5.10% - 6.76% *
*** as on previous day**	
Government Securities Market	
7.18% GS 2033	: 7.0264% #
7.26% GS 2033	: 7.0596% #
7.37% GS 2028	: 7.0294% #
7.06% GS 2028	: 7.0438% #
7.33% GS 2026	: 7.0460% #
6.99% GS 2026	: 7.0024% #
91 day T-bills	: 6.8988%*
182 day T-bills	: 7.1475%*
364 day T-bills	: 7.1049%*

Projections - Reserve Bank and Professional Forecasters (Per cent)		
	2022-23	**2023-24**
Reserve Bank's Baseline Projections		
Inflation, Q4 (y-o-y)	5.8	5.2
Real GDP growth	7.0	6.5
Median Projections of Professional Forecasters		
Inflation, Q4 (y-o-y)	6.0	5.0@
Real GDP growth	7.0	6.1
Gross domestic saving (percent of GNDI)	28.0	28.7
Gross capital formation (percent of GDP)	31.3	31.5
Credit growth of scheduled commercial banks	13.0	11.0
Combined gross fiscal deficit (percent of GDP)	9.7	9.0
Central government gross fiscal deficit (percent of GDP)	6.4	6.0
Repo rate (end-period)	6.00	6.00@
Yield on 91-day treasury bills (end-period)	6.2	6.0
Yield on 10-year central government securities (end-period)	7.5	7.4
Overall balance of payments (US$ billion)	-57.6	-7.4
Merchandise exports growth	7.2	6.3
Merchandise imports growth	19.0	5.7
Current account balance (percent of GDP)	-3.4	-2.7
@: Q2:2023-24		

Looking ahead, several exogenous factors – global and domestic – will impinge on the inflation outlook. Global commodity prices have come off their highs on weaker global prospects but remain elevated and volatile. Global supply chains are gradually normalising, although they remain vulnerable to geopolitical disturbances, pandemic-related lockdowns in major production hubs, and financial market volatility. Domestically, the record foodgrains production in 2021-22, the above normal south-west monsoon during 2022, the recovery in kharif sowing, ample buffer stocks and improved reservoir position augur well for agricultural prospects and the future trajectory of food inflation. Taking into account the initial conditions, signals from forward-looking surveys and estimates from structural and other time-series models, CPI inflation is projected to average 6.7 per cent in 2022-23 – 7.1 per cent in Q2, 6.5 per cent in Q3 and 5.8 per cent in Q4, with risks evenly balanced

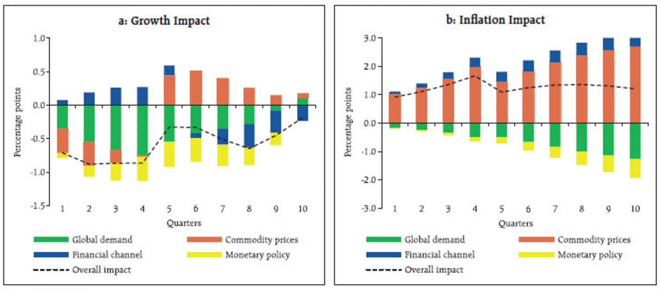

Chart I.1.1: Global Shocks and Domestic GDP Growth and Inflation

Source: RBI staff estimates.

the peak impact on India's inflation and growth through all the channels occurs by four quarters. Second-round effects can keep inflation at elevated levels even beyond 8 quarters, necessitating appropriate monetary policy actions to anchor inflation expectations. In such circumstances, frontloaded monetary policy actions by showing a strong commitment to the inflation target add to credibility gains and help in reining in inflation with lower output losses (John, Kumar and Patra, 2022).

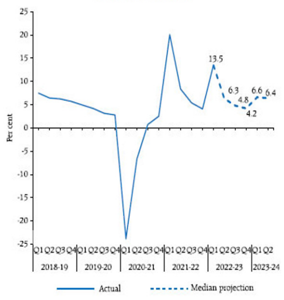

Chart I.9: Professional Forecasters' Projection of Real GDP Growth

Sources: Survey of Professional Forecasters, RBI; and National Statistical Office.

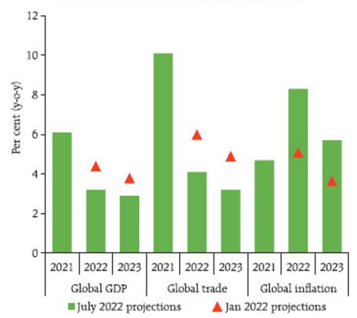

Chart I.2: Global GDP and Inflation

Source: IMF.

Global trade is slowing down and there are increasing concerns of recessions in major economies. The global composite Purchasing Managers Index (PMI) fell into contraction zone in August 2022 for the first time since June 2020. Global factors exert downward pressures on domestic activity and upward pressures on domestic inflation through a variety of channels

Co-ordination of Monetary and Fiscal Policy

Monetary policy is a term used to describe the actions taken by a central bank to regulate the amount of money and credit in an economy. On the other hand, fiscal policy refers to the government's decision-making process concerning taxation and spending. Both monetary and fiscal policies are used to manage economic activity over time. They can be used to stimulate growth when the economy slows down or to moderate growth when the economy is overheating. Furthermore, fiscal policy can be used to redistribute income and wealth.

CONCLUSION

Based on the study above, we can conclude that the goal of achieving a self-reliant and developed India by 2047 is crucial, and monetary policy plays a significant role in achieving this objective. The central bank provides necessary assistance in managing the country's economy through various measures. The monetary policy must be tailored to suit the Indian economy and implemented effectively. However, to promote development, it is essential to coordinate not only monetary policy but also fiscal policy.

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